

# Building Blocks

A Publication of the Federal Housing Finance Board



Volume 2, Number 1

May 1993

## Federal Home Loan Bank System Developing Strategic Plan

Since the summer of 1992, the Federal Housing Finance Board, the Federal Home Loan Banks, and the Banks' members have been devoting efforts to System 2000, a strategic planning process that will help shape the future of the Federal Home Loan Bank System.

The Federal Housing Finance Board sees several reasons for a strategic plan. Among these is that strategic planning is a prudent business practice and the Federal Home Loan Bank System should continue to assess how it is achieving its public policy objectives.

Also, the passage of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 brought with it many issues to be examined, such as membership, stringent capital requirements, and assessments on the Bank System. Furthermore, the home

mortgage climate has dramatically changed from what existed when the Bank System began in 1932. Finally, the Finance Board embarked on this strategic plan to examine ways that the Bank System can best help to fulfill needs unmet by the current system of housing finance.

In order to develop the System 2000 strategic plan, the Federal Home Loan Bank System divided the analysis of issues into two parts. The first step included a review of the Bank System's historical underpinnings; an analysis of the economic, demographic, and financial market trends that will affect the Bank System over the next decade; and an examination of the strengths and weaknesses with which the Bank System will meet future challenges.

These issues were examined through the development of research papers, and with the assistance of *See System 2000, page 2*

## CIP Funds Encouraged for Community Economic Development

The Federal Home Loan Bank System's Community Investment Program (CIP) has the potential to contribute to economic development and community revitalization throughout this country. The CIP, which provides advances (loans) to fund low- and moderate-income housing and community development activities in low- and moderate-income neighborhoods, has already assisted in financing several worthwhile community economic development activities, as indicated in the examples below.

The Danvers Savings Bank in Danvers, Massachusetts, borrowed a \$1.3 million CIP advance to finance the acquisition and rehabilitation of a four-story office building by the North Shore Association for Retarded Citizens (NSARC). The office building will serve as the corporate headquarters for NSARC and will provide space for 75 employees. NSARC

serves and advocates for the mentally retarded and their families, and its clients are primarily households earning at or below 80 percent of the area median income. Danvers Savings Bank, a member of the Federal Home Loan Bank of Boston, will provide a five-year, fixed-rate loan instead of the more customary adjustable-rate financing.

Leavenworth National Bank, a member of the Federal Home Loan Bank of Topeka, has been approved for CIP advances up to a total of \$500,000 for a "Downtown Development Program." The bank will use CIP advances to finance building repairs, new facades, interior remodeling, equipment, fixtures, and exterior signs for businesses and multifamily residential buildings in downtown Leavenworth, Kansas. The loans will be made to the borrower at the CIP rate plus 0.5 to 1.0 percent. The program

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# Bank System Embarks on System 2000

*System 2000, from page 1*

First Boston Corporation (together with its subcontractors K-H Consulting and the Enterprise Foundation), which was hired to review and critique these papers.

The second step involved analyzing strategic options for membership and alternatives for accessing FHLBank funds, products and services, community development activities, and governance and capitalization choices. Task Forces comprised of Federal Home Loan Bank Presidents and Federal Housing Finance Board staff were assembled in order to examine these issues.

One of these Task Forces, the Community Development Task Force, has as its focus the Federal Home Loan Bank System's current role in community development and an exploration of possible new directions. In this capacity, the Task Force is in the process of reviewing and formulating ideas on such issues as community development banks, multifamily housing, economic development lending, and infrastructure lending.

In reviewing these areas, the Community Development Task Force is mindful of the fact that some strategic alternatives would involve minimal risk, while others would require adequate risk mitigation. One of the primary goals of the Task Force is to explore how the System might evolve in a way that would serve its public policy objectives, while at the same time preserving the Federal Home Loan Bank System's fiscal safety and integrity.

In its discussions on the Bank System, the Community Development Task Force also found that the Bank System is uniquely positioned to support community lending and development for several important reasons: 1) because it supports strong, independent community-based financial institutions that meet community needs; 2) offers products that continue to evolve as the needs of community lenders and borrowers change; 3) has a regional structure that promotes local credit decision-making; and 4) works in partnership and does not compete with other public and private entities involved in community development.

In January the Federal Housing Finance Board, along with the System, held four Bank System shareholder meetings in order to gain input from the members themselves about the System's future and System 2000 itself. The Chairs and Vice Chairs of the Federal Home Loan Banks also met to review the issues and to provide feedback on the progress of the strategic plan thus far.

The exploration of these and other issues during this strategic planning process enables the Federal Home Loan Bank System to chart its future, and also assists the Finance Board in responding to the 14 Government-Sponsored Enterprise study questions outlined in the Housing and Community Development Act of 1992 passed by Congress.

This legislation requires that the Federal Housing Finance Board, the Congressional Budget Office, the General Accounting Office, the U.S. Department of Housing and Urban Development, and a study group of 24 shareholders of the Federal Home Loan Bank System produce separate, independent reports addressing the 14 questions. Study areas include the Bank System's products, membership, structure, capitalization, role in community lending, and support for community-based lenders, as well as the relationship between the Bank System's capital standards and those of Fannie Mae and Freddie Mac. These reports were submitted to Congress on April 28, 1993.

The legislation also provides for Fannie Mae, Freddie Mac, the U.S. Treasury Department, and the Director of Federal Housing Enterprise Oversight at HUD to comment on all of the required studies.

The Federal Housing Finance Board will continue to share information on the progress of System 2000 and the congressionally mandated study questions as the FHLBank System goes forward. ■

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## Advisory Council Representatives Name Chairperson

The Reverend Monsignor William Linder of New Jersey was elected Chairperson of the Affordable Housing Advisory Councils during a February 24th meeting of Federal Home Loan Bank Advisory Council chairs in Washington, D.C. The Council chairs also met with the Federal Housing Finance Board Directors and staff.

A Chair was named in an effort to better coordinate the activities and efforts of the Federal Home Loan Bank System's Advisory Councils and to formalize the Advisory Council representatives' interaction with Washington, D.C. and the Finance Board. Monsignor Linder will serve in this capacity for a one-year term.

Monsignor Linder, also the current Chair of the Federal Home Loan Bank of New York Advisory Council, is the founder of the New Community

Corporation, a nonprofit community corporation that develops and manages affordable housing for low-income residents and provides and operates health, education, and social services in New Jersey, primarily in Newark.

One of the first actions of Monsignor Linder and the Advisory Council representatives was to establish separate committees to examine issues under three broad areas: Affordable Housing Program regulatory review; the Community Investment Program; and the effect of mergers and acquisitions of lending institutions on community lending, particularly in rural areas.

Monsignor Linder and the Advisory Councils will also be looking at national housing policy issues of importance to all 12 Federal Home Loan Bank Advisory Councils and Advisory Council policies and procedures. ■

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## Dallas FHLBank Provides Grants to Programs Benefiting the Homeless

In October of 1990, the Federal Home Loan Bank of Dallas' Board of Directors voted to initiate a program to provide direct capital grants to community and nonprofit organizations that provide innovative or critical shelter programs or other special services for the homeless.

An amount of \$270,000 in grants was approved for funding under the Capital Grant Program for the Homeless. The \$270,000 represents a contribution of two basis points of the Bank's 1990 dividend, and is above and beyond funds set aside for the Bank's Affordable Housing Program. The amount was \$30,000 per industry representative serving on the FHLBank of Dallas' Board of Directors; the same formula was used to allocate the funds among the five district states. These funds have been disbursed to a total of 15 homeless programs in five states served by the FHLBank of Dallas district -- Texas,

Louisiana, New Mexico, Arkansas, and Mississippi. The FHLBank of Dallas worked with the Texas Homeless Network to identify eligible homeless projects to receive funds. Once the program was established in the state of Texas, it expanded to the other states in the Dallas Bank's district.

The following are just a few of the programs and projects assisted by this effort. In New Mexico, Albuquerque Health Care for the Homeless (HCH) was awarded a \$15,000 FHLBank of Dallas grant for the rehabilitation of two duplexes into a residential treatment center for substance abusers. HCH provides a broad range of free services for the homeless, including medical care, dental care, substance abuse services, case management, social work assistance, and AIDS prevention outreach.

*See Dallas, page 4*

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## CIP Funds Promote Community Economic Development

*CIP, from page 1*

will be coordinated with the City of Leavenworth's community development programs including commercial and economic development projects supported by Community Development Block Grant funds and Small Business Administration financing whenever possible. The average household income in the downtown area where the project is restricted is \$19,203, which is less than 50 percent of the median income for the Metropolitan Statistical Area (MSA). The area also falls within an Enterprise Zone designated by the State of Kansas.

Some CIP advances have helped finance community development projects that have the added benefit of providing jobs for low-income individuals. First Federal Savings and Loan Association, located in Carnegie, Pennsylvania, and a member of the Federal Home Loan Bank of Pittsburgh, borrowed two five-year CIP advances for a total of \$418,000 to finance the acquisition of two restaurants and maintain employment for approximately 25 employees - waiters, waitresses, cooks, dishwashers, hosts, and hostesses - in an area where incomes average \$17,000 per year.

Also, a Federal Home Loan Bank of Atlanta member, Greenwood National Bank, has used a \$60,000 CIP advance to fund a small business loan to an elderly woman to purchase a shoe store where she has worked for 30 years. The term of the advance is five years. Purchasing the shoe store enabled her to continue working and provide employment for others. The store is located on Main Street in Greenwood, which is a community development target area of the city. The shoe store provides an important consumer service for the neighborhood.

In order to further promote economic and community development activities, in July of last year, the Federal Housing Finance Board approved a policy to encourage the increased and innovative use of Community Investment Program funds for economic and community development lending.

In its general CIP policy statement, the Finance Board has determined that CIP commercial and economic development advances constitute "residential housing finance" for purposes of subsection 10(c) of the Federal Home Loan Bank Act, which states that "[A]ll long-term advances shall only be made for the purpose of providing funds for residential housing finance." In order to assist in advancing these policies, on September 17, 1992, the Federal Housing Finance Board published in the *Federal Register*, an interim final rule extending the maturity of all advances, including CIP advances.

Until that point, the Federal Housing Finance Board had authorized FHLBank advances with maturities for up to 20 years. This interim final rule "provides the Banks with the discretion to make advances with maturities greater than 10 years, consistent with safe and sound operation."

The elimination of the 20-year limit will assist in the financing of affordable housing and community and economic development activities by allowing for longer-term loans for the life of such projects.

There is potential for the use of CIP for economic and commercial development activities; these policies will help to bring that potential, and more projects like the ones described above, to fruition. □

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## Dallas Bank Awards Grants for Homeless Assistance Activities

*Dallas, from page 3*

The Service of the Emergency Aid Resource Center for the Homeless (S.E.A.R.C.H.) used the Federal Home Loan Bank of Dallas' \$30,000 grant to equip and secure Houston's first full-time day care center serving homeless people who do not reside in one of the city's overnight shelters. The center will provide a supervised child-care program primarily for children from birth through six years of age whose parents are assisted by S.E.A.R.C.H. and are committed to its broad in-house program of personal rehabilitation.

Our House, a Little Rock, Arkansas, multi-service and multi-site facility supplying emergency shelter, transitional living, and job training and placement, obtained a long-term lease of surplus federal property for a transitional living facility for the homeless. After rehabilitation was completed and a HUD homeless demonstration grant exhausted, additional code requirements were imposed. Through a joint undertaking with the Southwest Regional Office of Fannie Mae, the Bank contributed \$9,891 to help defray the additional rehabilitation costs. ■

# Community Investment Highlights

*This column will be a continuing feature of "Building Blocks" and will highlight Affordable Housing Program (AHP), Community Investment Program (CIP), and Community Support activities from each of the Federal Home Loan Bank Districts. If you have an innovative project or activity that you would like to see highlighted, please contact the Housing Finance Directorate of the Finance Board at (202)408-2810.*

## Dorsey R. Moore Cooperative

The Dorsey R. Moore Cooperative is a 41-unit limited equity cooperative in Washington, D.C., that is comprised of two existing four-story garden apartment buildings renovated as 31 two-bedroom units (including four handicapped-accessible units), and 10 three-bedroom units in five newly constructed duplexes.

The cooperative also includes off-street parking, laundry facilities, a community center, and a day care center and playground facilities for 35 children.

Through the Federal Home Loan Bank of Atlanta's Affordable Housing Program, First American Bank of Virginia used a \$1.15 million subsidized AHP advance to provide permanent financing for the cooperative.

This effort provides an example of how various sources of funding can be brought together in order to produce much-needed affordable housing. Altogether, there are 22 partners in the financial structuring of this project.

Additional funding was provided by MANNA (the project's nonprofit housing developer), the Local Initiatives Support Corporation, the District of Columbia's Department of Housing and Community Development, HUD, and many other local and national entities.

The 41 owners are all first-time homebuyers whose incomes are less than 50 percent of the median income in the Washington, D.C., area. Each family pays no more than 30 percent of its income for housing costs. All of the families were required to participate in both pre- and post-occupancy cooperative training workshops.

## New Community Corporation

Through the Federal Home Loan Bank of New York's Affordable Housing Program, the New Community Corporation received a \$250,000 AHP subsidy for a low-income housing project. A consortium of FHLBank of New York members will provide long-term financing for New Community Estates, a 56-unit rental development of two-story townhouses.

Investors Savings and Loan is using the funds as a gap grant to buy down the principal amount on the permanent mortgage. The rest of the mortgage financing will be shared by Investors Savings and Loan; Gibraltar Savings Bank, SLA; and First DeWitt Savings and Loan.

In another project involving two phases of development, the New Community Corporation received two subsidized AHP advances totalling \$128,473 for 33 units of multifamily rental housing, half of which is targeted for very low-income households. This project, Bayview Courts, located in Jersey City, New Jersey, was done through a public/private partnership with Pamrapo Savings, the City of Jersey City, Colgate-Palmolive, and New Community.

New Community is comprised of low-income housing and a number of facilities, programs, and social services for the purposes of empowering and housing New Jersey residents. This community houses over 6,000 Newark residents, and includes over 2,500 units of low-income housing, a new supermarket and surrounding shops that provide several part-time and full-time jobs, day care centers/nurseries, a job placement center, health care center, commercial space, a federal credit union, a shelter for victims of domestic violence, a special center to care for children with AIDS, and transitional housing for the homeless. ■

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***Building Blocks is published by the Federal Housing Finance Board, Housing Finance Directorate, 1777 F Street, N. W., Washington, D. C. 20006, (202)408-2810.***

## Resource Materials

**SRO Guide** -- A training and desk reference guide on SRO housing management is available from the SRO Housing Corporation. The manual is applicable to nonprofit management for many types of low-income housing. The manual is comprised of recommended procedures and more than 50 forms covering all aspects of low-income housing management including: marketing and tenant selection, move-in procedures, rent collection, maintenance and inspections, security and safety, and financial management. The guide, which costs \$45, can be obtained by contacting the SRO Housing Corporation at (213)229-9647, or by mailing a check payable to the SRO Housing Corporation, 311 South Spring Street, Suite 1110, Los Angeles, California 90013.



**Land Trust Legal Manual** -- The Institute for Community Economics published the *Community Land Trust Legal Manual*, a comprehensive legal resource for community-based organizations interested in using the community land trust (CLT) legal structure to preserve housing affordability over the long term. The manual includes information on incorporation, tax-exempt status, designing resale formulas, and financing homes on leased land. It also includes model legal documents (CLT bylaws and ground leases) with extensive commentary. The cost of the manual is \$100 (discounts are provided if purchased in bulk, and discounts are also provided to some organizations), and it can be obtained from the Outreach Department, Institute for Community Economics, Inc., 57 School Street, Springfield, Massachusetts 01105-1331.

**S&L Crisis and the Rural South** -- The Southern Finance Project published a report titled *Under New Management: The S & L Crisis and the Rural South*. This report examines the impact of thrift failures and government resolutions on financial markets in the rural South, as well as the restructuring that has taken place due to the closing of savings and loans. To obtain a copy of this \$40 report, please contact the Southern Finance Project, 329 Rensselaer, Charlotte, North Carolina 28203, (704)372-7072.



**Low- and Moderate-Income Homeownership** - The Community Information Exchange, with funding from the Fannie Mae Foundation, undertook a year-long research project in order to find the best practices to encourage homeownership. This study resulted in two publications. *Making Home Ownership Work for Low- and Moderate-Income First-Time Buyers* focuses on homeownership from the perspectives of first-time buyers, lenders, and communities. In each of the three areas, a series of barriers to ownership is matched with solutions from case studies. The cost of this publication is \$7 (prepaid). *Case Studies in Successful Home Ownership for Low- and Moderate-Income First-Time Buyers* presents 25 case studies with information on the sponsoring organization, basic strategy, the program development process, financing methods, results, and lessons learned. The cost for this publication is \$15 (prepaid). To obtain either of these publications, contact the Community Information Exchange, 1029 Vermont Avenue, N.W., Suite 710, Washington, D.C. 20005, (202)628-2981.

*The information presented above is provided for reader information only. Publication in this newsletter does not imply an endorsement by the Finance Board. If you have a publication or other outreach materials focusing on community lending, economic community development, fair housing, and/or very low-, low-, and moderate-income housing you would like to see highlighted in this column, please send a copy and any information to the Housing Finance Directorate, Federal Housing Finance Board, 1777 F Street, N. W., Washington, D. C. 20006.*